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ABSTRACT

This background paper examines the current state of higher education finance--the scope of the higher education enterprise, challenges to its funding base, and undesirable consequences of current financing practices--and describes what is meant by a "restructuring" of higher education finance. It demonstrates that the structures and practices embodied in current higher education finance are neither meeting public needs nor supporting higher education's capacity to act in the public interest. The paper begins with data on current enrollments, revenues, expenditures, and credentials. Challenges to the financial base are noted, including diminishing public support, limitations of private resources, voluntary giving which is not expected to replace public subsidies, increasing proportions of ethnic groups that have lower college participation rates, and criticism of American higher education quality. Undesired consequences of current financing arrangements are identified, such as financing education through debt, diminished public investment which undercuts public influence, stratification of opportunity, and a growing mismatch between corporate investment and higher education's needs. Restructuring is defined as "a serious rethinking of higher education's resources, uses, and expected results." It is seen as a means to address the way in which higher education might be financed, how higher education uses the funds it receives, and what the public and policymakers expect higher education to do. (Contains 38 references.) (JDD)

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INVESTING IN AMERICAN HIGHER EDUCATION: AN ARGUMENT FOR RESTRUCTURING

Judith S. Eaton, President
Council for Aid to Education

January 5, 1995

**Prepared for consideration by the
Commission on National Investment in Higher Education**

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INVESTING IN AMERICAN HIGHER EDUCATION: AN ARGUMENT FOR RESTRUCTURING

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INTRODUCTION

Today's financial foundation for higher education is a complex public-private venture, the product of many years of debate and development. Discussions about the financial difficulties confronting higher education -- difficulties which affect the future affordability and availability of collegiate education -- usually focus on the need for additional funds and the claim that there is too little public money being directed to public and private higher education. These discussions also typically highlight the increasing public demands on higher education -- demands for academic quality, for greater access, and for a higher education credential that provides its holder with a good job, economic security, and some insulation from the uncertainties of ordinary life. The public regards higher education as essential to a good life and is becoming increasingly anxious about ensuring its availability.

But higher education's financial problems have gone beyond the need for more money, and discussions of higher education funding must accordingly take a new turn. The problems now facing higher education require a rethinking of the ways in which we array the sources of revenue and the modes of expenditure for colleges and universities. Only such a rethinking can ensure that higher education sustains its capacity to meet public need. The challenge we face, then, is to distance ourselves from the familiar and comfortable description of funding issues (as primarily a matter of insufficient dollars) and to explore new approaches to financing our higher education enterprise.

This challenge to change the discussion, to restructure the way we approach the future funding of higher education, has been taken up by the *Commission on National Investment in Higher Education* -- a group of concerned corporate and higher education executives formed by the Council for Aid to Education.

The Commission's goal is to provoke a dynamic national discussion of the future financial foundation of higher education and its capacity to meet public needs. Through a set of thoughtful and provocative recommendations that will make up a demanding agenda for action, the Commission will focus on the "restructuring" of higher education finance -- restructuring the *sources* of revenue, the *uses* of those revenues, and public expectations about the *results* colleges

and universities are to achieve with their revenues. The Commission will provide leadership for the long-range thinking that is critical to sustaining the kind of higher education enterprise our country needs.

This background paper examines the current state of higher education finance -- the scope of the higher education enterprise, the challenges to its funding base, some of the undesirable consequences of current financing practices -- and describes what is meant by a "restructuring" of revenue sources and uses and of public expectations for results. As we will see, the structures and practices embodied in current higher education finance are neither meeting public needs nor supporting higher education's capacity to act in the public interest. A series of interventions is essential if we are to sustain -- and strengthen -- this vital national resource.

DESCRIBING THE HIGHER EDUCATION ENTERPRISE: MAJOR FEATURES OF A VALUED RESOURCE

There are many dimensions to higher education. The focus here is on description of current enrollments, revenues, expenditures, and credentials -- using the most recent data available.

Who Goes to College? Where?

Students enrolled in 2,169 four-year and 1,469 two-year colleges and universities across the country in 1992-93.

They attended in these numbers:			
		TOTAL	14.5 million
		Full-time	8.1 million
		Part-time	6.3 million
at these levels:			
		Undergraduate	12.5 million
		Graduate	1.7 million
and at these kinds of institutions:			
		2-year	*4-year*
	Public	5.5 million	5.9 million
	Private	237,700	2.9 million
	Historically Black Colleges	279,541	
They were:	White	10.9 million (77.5%)	
	Black	1.4 million (9.9%)	
	Hispanic	954,000 (6.8%)	
	Asian	696,000 (5.0%)	
	Women	8.0 million	
	Men	6.5 million	

Source: U. S. Department of Education, *Digest of Education Statistics*, Oct. 1994

Higher education continues to be a growth industry. Enrollments increased by 17 percent between 1982 and 1992. This holds for full- and part-time students, men and women, whites and minorities, two- and four-year public and private institutions. Undergraduate enrollment grew 16 percent between 1986 and 1992, as did graduate enrollment. Enrollment growth has been especially dramatic in the public two-year sector (community colleges). These institutions enrolled 2.1 million students in 1970 and by 1992 -- just 22 years later -- had more than doubled (in fact, almost tripled) their enrollments to 5.5 million (U. S. Department of Education, October 1994).

Revenue Sources: Public and Private Support

Revenues for higher education come from a varied array of sources. Sorting out these revenues and understanding their relation to each other is not always easy. Higher education receives public (taxpayer) revenues from states, localities, and the federal government. Private revenues are derived from tuition and fees paid by students or their families. Voluntary giving from corporations, individuals (including alumni), and foundations is another source of private revenues.

In 1991-92, total current fund revenues to higher education were $161,421,460. Public institutions received $102,197,619; private institutions received $59,223,841. The federal government provided 12.3 percent of revenues through student grants and loans and through appropriations to institutions from various departments, agencies, and institutes for programs and research. States provided 25.1 percent of revenues to colleges and universities through direct appropriations that are partly enrollment-driven and partly programmatically determined. States also provide some student aid and research funds. Local governments provided 2.6 percent of current fund revenues, mainly to community colleges.

Private revenues are provided by students and/or their families through tuition, fees, and room and board (25.7 percent of total revenues). Sales and service revenues (23.3 percent) are derived from college and university auxiliary operations (U. S. Department of Education, October 1994).

Public Revenues		
Federal	$19.8 billion	(12.3%)
State	40.6 billion	(25.1%)
Local	4.2 billion	(2.6%)
Private Revenues		
Tuition, Fees, Room & Board	41.6 billion	(25.7%)
Sales and Services	37.5 billion	(23.3%)

Source: U.S. Department of Education, *Digest of Education Statistics*, Oct. 1994

Voluntary support (as reported by colleges and universities and distinct from the private revenues generated by tuition, fees, and room and board) amounted to $11.2 billion in 1993 (Council for Aid to Education, 1994b). Support came from six sources:

Private Support		
Alumni	$2.98 billion	(27%)
Other Individuals	2.53 billion	(23%)
Corporations	2.40 billion	(21%)
Foundations	2.20 billion	(20%)
Religious Organizations	250 million	(2%)
Other	840 million	(7%)

Source: Council for Aid to Education, *Voluntary Support of Education 1993*, 1994

Corporations report that they provided $1.8 billion in support to higher education in 1993 (Council for Aid to Education, 1994a). Corporate support was distributed for current operations and capital purposes as follows:

Purposes of Corporate Support	
Current Operations	*71.4%*
Research	27.1
Academic Divisions	14.0
Unrestricted	7.5
Student Financial Aid	5.1
Other Restricted	17.6
Capital Purposes	*28.6%*
Endowment	9.4
Property, Bldgs, Eqpmt	19.2

Source: Council for Aid to Education, *Voluntary Support of Education 1993*, 1994

College and university return on endowment was 2.9 percent in 1994 -- down considerably from the 13 percent return for 1993 and 1992. Much of the decline can be attributed to poorly-performing stock and bond markets (Nicklin, December 7, 1994).

Expenditures: What Do Revenues Purchase?

Total current fund expenditures for higher education were $156,212,197 in 1991-92. Major categories of expenditure include:

Instruction	$47,997,196	(31.1%)
Research	14,216,554	(9.1%)
Academic Support	10,557,018	(6.8%)
Student Services	7,509,094	(4.8%)

Source: U. S. Department of Education, *Digest of Education Statistics*, Oct. 1994

Institutional support, auxiliary enterprises, plant maintenance, scholarships, and independent operations make up much of the rest of the expenditures.

Public institutions spent $98,840,633 and private institutions, $57,371,563. Expenditures for instruction have decreased as a percentage of total expenditures in the last ten years at both public and private institutions while expenditures for research have increased at public institutions and decreased at private colleges (U. S. Department of Education, October 1994).

Credentials: How Many Are Earned and How Are They Valued?

Approximately 2 million degrees were earned in 1993-94, including just over one-half million associate degrees and more than a million baccalaureate degrees (*Higher Education & National Affairs*, May 23, 1994).

Associate Degrees	*(thousands of degrees)*
Women	294.0
Men	210.0
Baccalaureates	
Women	628.0
Men	537.0
Master's Degrees	
Women	194.0
Men	176.0
First Professional Degrees	
Women	30.7
Men	44.0
Doctorates	
Women	16.1
Men	25.2

Source: *Higher Education & National Affairs*, ACE, May 23, 1994

More people are completing college than ever before. Associate, baccalaureate and master's degree acquisition all increased during the 1980s. In 1991-92, business and management was the field in which the largest number of bachelor's degrees were awarded (256,603), followed by the social sciences (133,974) and education (108,006). The largest number of master's degrees (92,668) and doctorates (6,864) were awarded in education (U. S. Department of Education, October 1994).

While there is no official or public measure of the value of a collegiate credential, some informal measures are frequently employed. The status of individual colleges and universities (a rough measure of the value of a degree earned there) is regularly assessed in such publications as *U.S. News and World Report* magazine. Earnings associated with years of education are routinely calculated.

More education *does* mean greater earnings. Mean annual earnings varied dramatically based on education level in 1992. Bachelor's degree recipients earned almost twice as much as high school graduates and those with doctoral degrees earned three times as much.

Mean Annual Earnings by Level of Education, 1992

Professional Degree	$74,560
Doctorate	54,904
Master's Degree	40,368
Bachelor's Degree	32,629
Associate Degree	24,398
Some College, No Degree	19,666
High School Diploma	18,737
No High School Graduation	12,809

Source: *Education Daily*, Nov. 29, 1994

However, the greater earnings associated with more education are starting to deteriorate. The inflation-adjusted wages of those with college degrees have diminished since 1991, so the baccalaureate is not as reliable as it once was in ensuring a rising standard of living (Uchitelle, September 5, 1994).

CHALLENGES TO THE CURRENT FINANCIAL BASE OF HIGHER EDUCATION

This is the way things are. Degree acquisition is increasing and is handsomely rewarded through earnings and status. Why should we be concerned about higher education finance?

Public Support to Higher Education Is Diminishing

An examination of federal, state, and local revenues to higher education during recent years indicates that higher education is receiving less public money than it has in the past and, when increases in funding are available, those increases are smaller than in past years:

* The federal government's share of financial aid to students has declined (*Higher Education & National Affairs*, October 24, 1994).

* Federal appropriations per full-time equivalent student decreased 9 percent in constant dollars between 1980 and 1993 (Horton and Andersen, 1994).

* Federal and state revenues to higher education each declined as a percentage of total current fund revenues between 1980-81 and 1991-92 (U. S. Department of Education, October 1994).

* Overall state appropriations to higher education showed an absolute decline in 1991-92 and 1992-93 (National Governors' Association, July 1993). There has been some improvement in 1994-95, but at a slower growth rate than prior increases (Lively, October 19, 1994).

* State appropriations per full-time student fell 13 percent in real terms between 1987 and 1992 (Chesire and Frantzreb, 1993).

* The proportion of state and local government expenditures devoted to higher education declined from 23.5 percent in 1968 to 18.3 percent in 1990 (Wallace, July 1993a).

Such a diminution of public investment would be problematic for higher education at any time. But it happens to come at a time when the public wants a great deal from higher education and is deeply worried about its future availability. ***The public finds itself in the contradictory and unenviable position of escalating its demands from higher education while being reluctant to pay for them.***

Private Resources (Tuition and Fees) Have Limits

The persistent rise in tuition and fees has been thoroughly documented in the press and higher education literature. Average tuition, fees, and room and board have increased for the past 20 years, rising faster than the rate of inflation. Constant-dollar increases in family income did not keep up with tuition increases during 1980-87 (Cheever, 1992). From 1990 to 1992, as family income decreased in constant dollars, tuition and fees claimed an increased share of disposable income (Horton and Andersen, 1994).

Students are paying 4-6 percent more in 1994-95 for tuition and fees than they did a year ago (Evangelauf, October 5, 1994):

Average Annual Increase in Tuition and Fees

	Public Coll.		Private Coll.	
	2-yr	4-yr	2-yr	4-yr
1987-88	5%	6%	6%	8%
1988-89	4	5	7	9
1989-90	5	7	7	9
1990-91	5	7	8	8
1991-92	13	12	6	7
1992-93	10	10	6	7
1993-94	10	8	7	6
1994-95	4	6	5	6

Source: *Chronicle of Higher Education*, Oct. 5, 1994

To help deal with the impact of rising tuition, more than one-half of all students (10,461,000) in collegiate institutions or vocational-trade schools obtained financial aid during 1990-91 (*Education Daily*, October 27, 1994). Student aid increases have been mainly in the form of loans and more aid from institutional sources. Federal support through the Family Education Loan (FEL) program increased 41.6 percent between 1992-93 and 1993-94 (*Education Daily*, September 28, 1994). The total number of loans increased from 5.1 million to an estimated 6.4 million (American Council on Education, Division of Governmental Relations,

September 16, 1994). Campus-based aid (as opposed to federal aid) increased from 13 percent to 19 percent during the past ten years (*Higher Education & National Affairs*, October 24, 1994).

Sources of Student Aid

	1983-84	*1993-94*
Institutions	13%	19%
State Government	6	6
Federal Government	81	75

Source: *Higher Education & National Affairs*, ACE, Oct. 24, 1994

In the mid- and late 1970s, the amount of federal aid awarded to students was pretty evenly divided between grants and loans. By the 1994-95 academic year, borrowers will exceed Pell grant recipients by 60 percent (*Higher Education & National Affairs*, September 26, 1994).

Federal Loan and Pell Grant Programs, FY 1976 - FY 1995

	Federal Loan Programs		*Pell Grants*		*Ratio*
FY	*$ Borrowed (millions)*	*# of Loans (thousands)*	*$ Granted (millions)*	*# of Recipients (thousands)*	*(loan to grant $)*
1976	$ 1,828	1,299	$1,475	1,944	1.2 : 1
1977	1,537	973	1,524	2,011	1.0 : 1
1978	1,959	1,085	1,541	1,893	1.3 : 1
1979	2,984	1,510	2,357	2,538	1.3 : 1
1980	4,840	2,314	2,387	2,708	2.0 : 1
1981	7,822	3,539	2,300	2,709	3.4 : 1
1982	6,235	2,787	2,421	2,523	2.6 : 1
1983	6,928	3,039	2,797	2,759	2.5 : 1
1984	7,916	3,403	3,053	2,747	2.6 : 1
1985	8,913	3,833	3,597	2,813	2.5 : 1
1986	8,570	3,610	3,460	2,660	2.5 : 1
1987	9,736	3,876	3,754	2,882	2.6 : 1
1988	11,816	4,513	4,476	3,198	2.6 : 1
1989	12,466	4,713	4,778	3,322	2.6 : 1
1990	12,291	4,493	4,935	3,405	2.5 : 1
1991	13,500	4,818	5,793	3,786	2.3 : 1
1992	14,749	5,130	6,200	4,000	2.4 : 1
1993*	16,524	5,326	5,782	3,808	2.9 : 1
1994*	22,280	6,396	5,896	3,952	3.8 : 1
1995*	24,241	6,622	6,372	4,114	3.8 : 1

Source: American Council on Education, Division of Governmental Relations, 1994 * Estimated

As tuition has increased and disposable income has decreased, even the middle class begins to find itself unable (without incurring significant indebtedness) to take advantage of educational opportunities that are perceived as essential to economic and social wellbeing. Higher tuition and fees are making it much more difficult for low-income students (who are more likely to be minority and/or female, and underprepared) to attend college at all -- a break with the long American tradition of upward mobility through education.

As tuition increases concentrate the more affluent students in higher-priced, more selective institutions and preclude attendance at such institutions for some middle- and lower-income students (Dunn, 1993), access to high-quality education is becoming increasingly class-based.

Private Support (Voluntary Giving) Will Not Replace Public Subsidy

You hear it everywhere, from two-year, four-year, public and private institutions: they will "fundraise" their way to solvency and prosperity. This hope, however, flies in the face of an important reality. ***Realistically, private support (at least in its current and foreseeable dimensions) can offer only limited relief to struggling institutions; it is too small, too selective, and too unpredictable to replace public subsidy.***

Voluntary support to education ($11.2 billion in 1993) is miniscule as compared to total higher education expenditures ($200 billion in 1993). Corporate support ($1.8 billion) represents an even smaller percentage of expenditures. Voluntary giving, especially corporate giving, tends to be overvalued as a source of fiscal relief because of its important symbolic value. It is a powerful signal about the perceived worth of an institution, but its symbolic power considerably exceeds its buying power.

Voluntary support is also highly selective, in the sense that funders provide support for projects and activities of significance to them. Increasingly, companies are setting their own grantmaking agendas rather than responding to needs identified by colleges or universities. And, increasingly, corporate support is targeted rather than general.

The competition for corporate support is also more strenuous than ever before, giving an edge to institutions that have already established relationships and track records with companies. Even the most prestigious institutions, though, will find that company priorities are now dictating philanthropy priorities. Companies weigh carefully the "'value added" provided by working with a given college or university.

Financing Access for a Changing Population is Problematic

Current funding for higher education supports a predominantly white student population. Blacks and Hispanics are still less likely to attend college than whites. While minorities have enjoyed substantial growth in enrollment since 1976, they remain a far smaller share of the collegiate population than white students. Black and Hispanic high school graduates have lower college participation rates than white graduates. Once enrolled in college, Black and Hispanic students have higher attrition rates than whites and Asians.

Enrollment by Race/Ethnicity

	1992	Percent Change 1982-92	Percent Change 1991-92
ALL INSTITUTIONS	14,491	17.0	0.9
White (non-Hispanic)	10,870	8.7	-1.1
Total Minority	3,163	53.6	7.1
Black	1,393	26.5	4.3
Hispanic	954	83.8	10.0
Asian	697	98.6	9.4
Native American	119	35.2	4.4
Nonresident Alien	458	38.4	10.1

(numbers in thousands)

Source: Carter and Wilson, *Minorities in Higher Education*, 1994

Looking to the future, the public school population will be increasingly black and Hispanic. In most large cities, "minorities" constitute the majority of the student population. During the next 18 years, the country's minority youth population will increase by 4.4 million (Association of Governing Boards, 1992). New York, Chicago, Miami, and Los Angeles are enrolling almost 100,000 new foreign-born or immigrant students each year (Hill, 1993).

Despite serious public policy concern about the need for more minorities to attend college now (and even greater concern about the demographics of future generations of college attendees), the country's increasingly minority school population is moving through the education system -- looking forward to college -- just as the higher education enterprise appears to be heading toward significant restriction in size and scope. Ensuring quality education as the society grows more diverse is not only a challenge, but a moral and social obligation.

Or do we still regard it as an obligation? If public support for higher education continues to diminish, how can the nation ensure that educational opportunity is available to current and future generations of minorities, many of whom are low-income? Have we reached the end of our willingness to subsidize a major access commitment? Have we gone as far as we are willing to go with public subsidy for college and do we wish to turn instead toward the "privatizing" of higher education -- where the opportunity to attend college, and the kind of college one has an opportunity to attend, are largely determined by the extent of one's private resources? Changing demographics and declining public revenues combine to confront us with these challenging questions in a more urgent and immediate way, perhaps, than ever before.

Financing Quality Is Difficult When We're Not Sure What It Is

Various outside observers -- opinion leaders, employers, editorial writers, and government officials -- have been vocal and sometimes harsh in their criticism of the quality and effectiveness of American higher education. Critics cite disappointing cognitive skills of associate and baccalaureate degree recipients: their limited ability to think analytically and solve problems; their lack of awareness of history and culture; their limited social skills, including workplace discipline

and the ability to work well with others; and their limited capacity for independent thought and action. Critics also claim that teaching and learning are not priorities in academic institutions (having been displaced, for example, by research or other scholarly activities) and that educators are not taking the need for improved productivity seriously enough or making an adequate commitment to the kinds of practices that would enhance operational efficiency. A recent Educational Testing Service (ETS) study appears to confirm some of this criticism, suggesting that the literacy levels of college graduates are not nearly as high as we might reasonably expect them to be (Barton and Lapointe, 1995).

Some observers within the higher education system are also negative in their assessments of its quality and effectiveness, but for different reasons. Faculty and administrators sometimes criticize the inchoate state of the curriculum, the dilution of academic standards, the absence of rewards for good teaching, the prevalence of apparently pointless research, and the energy that is perhaps wasted on "cultural wars" and debates over "political correctness."

But even among those who are most vocal in their assessments (negative or positive) of higher education quality, the discussions are typically inconclusive. There is no national consensus on quality standards for higher education at this point, nor does the development of such standards appear to be imminent. The National Center for Education Statistics (NCES) had planned to take initial steps to create an assessment system for higher education, but funds are not available (Barton and Lapointe, 1995). The National Education Goals Panel (NEGP) has begun to pursue a national system of standards and assessments for postsecondary education to measure general cognitive skills, thinking skills, and occupation-specific skills (Zook, March 24, 1993). If completed, the system would identify indicators of good educational practice that are tied to student performance, at least creating an institutional capacity to improve educational attainment.

In the current economic climate, quality is becoming an especially important issue for corporate observers and funders of higher education. Much corporate time and energy has been devoted to strengthening the quality of American products and services and the productivity of American business, especially in the last five years. Corporate leaders transfer their expectations of quality in the corporate environment to higher education. And, although corporations have generally expressed satisfaction with American higher education, they are beginning to look at colleges and universities more critically, asking "We shaped up and trimmed down to improve quality and effectiveness, why can't they?"

But corporate discussions of education quality also reflect some uncertainty. Corporate executives tend to identify quality with a sound general education. Corporate personnel officers think of quality in terms of the technical skills they expect employees to possess. Without more agreement about what constitutes an educated employee (and about how to realize these expectations), corporations cannot play a leadership role in the quality discussion.

If the public, the higher education community, and the corporate sector do not have clear expectations of quality, it is difficult to determine what to do about funding it. Are we funding education quality when we support the most prestigious and selective institutions? Are we funding education quality when we support research? Are we funding education quality when we support vocational education? Are we funding education quality when we support studies of faculty productivity? Are we funding education quality by limiting our support in hopes of pushing educational institutions to cut costs and adopt more efficient operating practices? These kinds of issues need to be addressed by all who are involved in the quality discussion.

UNDESIRED CONSEQUENCES OF CURRENT FINANCING ARRANGEMENTS

In addition to the challenges that threaten to weaken higher education's financial foundation, as described above, current fiscal structure and practices have spawned some highly undesirable consequences, for the country and for higher education itself. These consequences were not planned -- they emerged -- and need to be systematically examined.

Public Policy for the 1990s: Financing Education Through Debt

Suppose that a country wanted to create a public subsidy program for college and university attendance. Suppose it made ability to pay a major factor in determining who could attend college, thereby excluding the less affluent from the benefits of higher education. Suppose higher education institutions and the country created a pricing structure that ensured that incurring debt was an inevitable byproduct of college or university attendance. Suppose the country decided to reward students who attained degrees from the most expensive institutions with the best jobs, highest incomes, and most elevated status. What would we say about this country's public policy commitment to higher education and an educated citizenry? We would say its commitment was not very strong.

We live with this public policy. How ironic that education is enshrined at the heart of this nation's historic promise of opportunity, yet our public policy fails to provide adequate subsidy for it. How perverse that we can ensure access to collegiate education for students who are already less affluent only through a public policy that forces them into indebtedness.

The net effect of this public policy is that student indebtedness has become the primary subsidy strategy for college attendance. The shift from grants to loans during the 1980s, accompanied by ongoing tuition increases, helped to create this situation. Current evidence points to greater rather than less reliance on this strategy in the future. The Student Loan Reform Act of 1993 and regulatory changes that accompanied the reauthorization of the Higher Education Act of 1992 focused primarily on loan strategies, introducing a direct lending program (in the 1993 legislation) and consolidated loan options provided by the federal government. Early estimates of the likely impact of new loan strategies on students show that they will increase indebtedness considerably.

Student Loan Options

	Current Standard Loan	*New Extended Loan*	*New Graduated Loan*	*New Income-Contingent Loan*
Amount Borrowed	$15,000	$15,000	$15,000	$15,000
Interest Rate	8.25%	8.25%	8.25%	8.25%
Initial Payment	$184	$146	$107	$85
Length of Loan	10 years	15 years	15 years	20.5 years
Total Interest Paid	$7,080	$11,280	$13,668	$18,656
TOTAL PAID	**$22,080**	**$26,280**	**$28,668**	**$33,713**

Source: *Memo to the President*, AASCU, Oct. 14,1994

Obtaining the baccalaureate in the future will require "education mortgages," analogous to home mortgages. Since borrowing and saving are easier for the more affluent, we can expect the "education mortgage" approach to further undermine any commitment to access for low-income and some minority students. Students with moderate means may be forced to choose lower-priced institutions in order to minimize their debt. Or they may be forced to work while going to school, a laudable activity but a less-than-ideal set of circumstances for learning.

These undesired consequences of borrowing are sometimes described as an "intergenerational shift" in responsibility for funding higher education. Where families once paid for students' education, students are now paying through borrowing. These students of today -- wage earners of tomorrow -- begin their careers in debt, which limits their ability to make an investment in the education of their own offspring. The assumption that each generation will be able to provide the next generation with a better educational foundation has been called into serious question by daunting increases in the price of higher education brought about (in part) by diminished institutional aid and exacerbated by diminished student aid.

Diminished Public Investment: Undercutting Public Influence

This diminished public support raises important questions about the degree of public influence on higher education. To the extent that taxpayer support allows, federal and state monies can shape the programs and services of higher education. Two examples, increased access and enhanced research capacity, make this point.

In the 1970s, colleges and universities increased curricular offerings, built campuses, and significantly enlarged their scope of operation. They were able to do so because federal student aid programs and state aid made it possible for many students who could not otherwise afford tuition and fees to attend college -- thereby greatly increasing enrollments. The primary financial aid program for lower-income students, the Pell Grant, served 1.9 million students and expended $1.5 billion in 1976; by 1983, the Pell program had almost doubled, serving 2.8 million students and expending $2.8 billion.

A similar trend held true for student loans. The federal government made 1.3 million loans worth $1.8 billion in 1976. By 1983, the number of loans reached 3 million and loan volume had reached $6.9 billion (American Council on Education, Division of Governmental Relations, September 16, 1994).

State revenue for higher education tripled in the 1970s, increasing from $5.9 billion to $18.4 billion (U. S. Department of Education, October 1994). This greatly contributed to the capacity of higher education institutions to expand facilities and otherwise accommodate enrollment growth.

Thanks to increased public investment, research initiatives also expanded and became more diverse during the 1970s. Current fund revenues for research increased from $4.1 billion in 1969-70 to $8.9 billion in 1979-80 (U. S. Department of Education, October 1994).

When public support is no longer directed to a given purpose -- whether access or research or another public good -- colleges and universities look for other revenue sources such as tuition or private support to meet their needs, and the purposes once supported by public funds may no longer be sustained as institutional priorities. This can have a powerful impact on the mission of an institution. Small private liberal arts colleges, for example, may undertake continuing education programs for midcareer adults because a market is there and they can realize significant revenues -- even if this programming puts a strain in their traditional

mission of undergraduate liberal arts education. Other colleges may reduce their admission requirements to attract a larger enrollment and more tuition dollars, thereby changing academic standards and diverting institutional resources from the traditional liberal arts education to remedial education.

Deterioration of the public's capacity to pay for what it wants from colleges and universities can also lead colleges and universities to feel less obligated to honor public priorities, and to a perception that higher education is turning its back on public needs. For example, if the state cannot fund additional enrollments in the local community college, the institution may not be able to honor a demand for unlimited access. It may be forced to limit its enrollment to the number of students covered by the public dollars provided. To take another example, when federal and state student assistance cannot cover the price of tuition at the local four-year college, there must be a limit to how much help the institution can provide lower-income students from its own resources -- and it would be difficult to fault that institution for seeking more full-paying students.

Stratification of Opportunity: All Access Is Not Equal

Much has been made of our national commitment to access. We say proudly that America sends more high school graduates to college than any other industrialized nation. As the discussion above suggests, there is reason for concern that diminished public investment will result in reduced educational opportunity; in other words, the numbers of students going to college will diminish, especially the numbers of minority students.

But there is another dimension to this constriction of access -- just as significant in terms of its impact on opportunity and its implication that fewer people will go to college. This dimension is captured by the question, "Access to what?" Yes, millions of students attend higher or "postsecondary" education institutions, *but what kind of institution do they attend, and what kind of experience do they have?*

We have already noted that many middle- and lower-income students will be unable to attend some high-priced and highly selective higher education institutions. Even more disturbing, though, is the fact that there has been a significant change in the nature of the lower division education offered by some collegiate institutions. Lower division education at such institutions increasingly includes more subcollegiate work -- either nondegree vocational education or remedial education -- as distinct from collegiate work. This is occuring in part because the most recent public investments in lower division education have been focused on more narrowly-defined vocational education rather than on the liberal arts or on general education. It is also the result of colleges and universities attempting to accommodate underprepared high school graduates.

Recent federal investment in lower division education has been confined to the School-to-Work Opportunities Act (1993) or additional appropriations for "Tech Prep" programs under the 1984 Perkins Vocational Education and Applied Technology Act. These are initiatives emphasizing technical skills and education for immediate employment. Investing in such initiatives is admirable, but has a major deleterious side effect: students are not likely to receive the general education or the liberal arts education characteristically associated with college-level work. These initiatives and programs expand (or diminish) the concept of "college" to include educational experiences that are not sufficient to earn the baccalaureate and may not even open the opportunity for proceeding to baccalaureate-level work.

Lest this be viewed as an unfair critique of current vocational education efforts, it is important to note that the federal government and many vocational educators themselves have expressed their concerns that vocational education is not adequately integrated with collegiate work; that vocational education does not include enough general education; and that vocational education is too narrowly tailored to even ensure the workplace skills that students will need in the future (Boesel and McFarland, 1994).

Higher education also now has a major role in remedial education. In 1991-92, fully 88.6 percent of four-year institutions (public and private) offered remedial instruction or tutoring, up from 78.9 percent in 1981-82. Just under 91 percent of two-year colleges (public and private) offered this service in 1991-92, up from 83.8 percent in 1981-82 (U. S. Department of Education, October 1994). Vartan Gregorian, president of Brown University, warned recently that lower division collegiate education cannot be modified to compensate for the inadequacies of the public schools and that 50 percent of collegiate time and resources ought not to be devoted to remedial education (Gregorian, 1994).

What emerges from these trends is a picture of stratified educational investment and educational opportunity, in which public funding is targeted to lower division vocational programs and larger amounts of private resources are required for higher-priced, collegiate education. The answer to, "Access to what kind of institution?" is more and more class-based: the affluent have access to any level and quality of education they want, and the less affluent have access to less selective institutions. The answer to, "Access to what kind of educational experience?" is -- for more and more students -- access to subcollegiate work in a collegiate setting.

Corporate Investment and Higher Education's Needs: A Growing Mismatch?

Another undesired consequence of the current financial situation of higher education is a growing misalignment between corporate philanthropic intent and current higher education need. In days of more plentiful public funding, private support of higher education was viewed as the "margin of excellence" -- the dollar difference between routine college operation and special initiatives. Corporate and other voluntary support funded activities that were desirable but not essential to an institution.

Declining operating support for higher education has erased the margin of excellence corporate support was originally intended to provide. Colleges and universities now must struggle to find funds for ongoing operations that could once be taken for granted. Today, private support is important to the routine activities of these institutions. When viewed in this light, the purposes and uses of corporate support may need to change.

For example, three-quarters of current corporate support to higher education (approximately $1.35 billion of the $1.8 billion total reported by companies) goes to research/doctoral institutions, most of which are in comparatively good fiscal condition: their endowments are large, funding per full-time equivalent student is high compared to other institutions, and reserves are strong. Yet there are hundreds of private institutions with modest endowments that are struggling to stay alive and hundreds of public institutions that have too few dollars behind each student and have experienced drastic budget reductions or been forced to turn students away. Perhaps some corporate dollars would be better invested in such institutions than in research/doctoral institutions.

For example, corporate support and attention continue to focus on research or research-related activities. Yet some corporate leaders are outspoken in their dissatisfaction with the quality of many of today's associate and baccalaureate degree recipients. Perhaps some of the corporate dollars invested in research would be better spent funding undergraduate teaching and learning.

For example, corporate leaders express strong concern that more minorities should be part of the skilled workforce and upwardly mobile. Yet the corporate investment in minority education heavily favors science, math, and technology -- while the majority of minority students obtain degrees in the social sciences and business (Carter and Wilson, 1994). Community colleges enroll almost half of all minorities in higher education, yet few corporate dollars make their way to these institutions. Perhaps more dollars could be invested in programs and institutions in which large numbers of minorities are enrolled.

For example, corporate leaders have been most vocal in their concerns about the poor quality of elementary and secondary education. Yet few corporate dollars go into teacher education programs and those that do tend to be spent on ambitious but amorphous programs with few clearly-focused goals. Perhaps investment in teacher education could be more of a corporate priority, with demanding expectations for high-quality results as part of the grant package.

FINANCING HIGHER EDUCATION FOR THE FUTURE: "RESTRUCTURING" RESOURCES, USES, AND EXPECTED RESULTS

This examination of the formidable challenges and undesired consequences associated with the financing of higher education makes it clear that there is little to be gained from modest changes that affect only some of the "building blocks" of higher education's financial foundation, and much to be gained from changing the very terms of the discussion, calling for *comprehensive examination* of fundamental issues and putting forth fresh alternatives and new perspectives. This is what we mean by restructuring higher education finance.

But if we want to restructure higher education funding, where in the enterprise do we intervene? We can intervene at the source point -- the *resources* that fuel the enterprise and without which it cannot exist. We can intervene at the point of *use* -- the ways in which higher education spends its resources. Or we can intervene at the point of *expected results* -- the demands that are made on the enterprise with respect to what should emerge from its use of the resources it has. Wherever we intervene, the current situation calls for looking at the higher education enterprise as if we were encountering it for the first time, freeing ourselves from the assumptions and habits of thought that have governed our thinking to date.

Restructuring the Resources: Revenue Flow

When we address this difficult issue, we tend to take the existing pattern of revenue flows to higher education for granted. We think *within* the flow of federal money for research and student aid; *within* the flow of state money for institutional and student aid, and to a certain extent for research and special programs; *within* the flow of private money either in the form of tuition and fees or voluntary giving. That money will flow from these particular sources, for these particular purposes are the "givens" from which we tend to tackle higher education's financial problems.

But rethinking the "givens" is essential to resolving the current financial challenges facing higher education. These challenges -- described above as reduced public support, tuition and fees that cannot be raised indefinitely, targeted and limited voluntary support, new problems in funding access, and confusion about funding quality -- are not minor disturbances to the *status quo*, but fundamentally shake the core of the enterprise. They require and deserve a comprehensive response. We need a broad discussion that changes the "givens," rearranging current revenue flows or creating new ones.

Discussions about rethinking *certain* revenue flows are already underway. Some of these conversations focus on federal student aid and how to reconfigure grant and loan support going to students (Hauptman and Koff, 1991; National Commission on Responsibilities for Financing Postsecondary Education, February 1993). Other discussions concentrate on rethinking the relationship between federal aid to students and state aid to institutions (for example, the conversation about the advantages and disadvantages of "high tuition/high aid" in Johnstone, 1993; McPherson and Schapiro, 1991; and Wallace, 1993b). Post-1994 election discussions about rethinking federal and state responsibilities for a range of social services, including corrections and welfare, also have implications for the future funding of higher education.

More comprehensive restructuring conversations can be built on these discussions in two ways. First, discussants could focus more attention on the roles of tuition and fees, aid from institutional sources, and voluntary giving. These are all forms of private investment (as opposed to the public forms of investment already under discussion) and including them would produce a reconsideration of *all* public and private sources of support to education. Second, discussants could truly give up the "givens," freeing themselves to imagine a higher education financial foundation that may not even feature student aid and institutional aid or tuition and private giving as we currently know those revenue flows.

Suppose, for example, that a public-private enterprise established "Education Investment Banks" to acquire and distribute money for higher education institutions. These Banks could be started by states or institutions pooling their existing resources. They could be managed publicly, privately, or as a public-private venture. Such a Bank could also house an Investment Option for students to build their own reserves for college attendance. Private giving could be channelled to the Bank as well. The Bank would disburse money to institutions through an Investment Application process. Funds would be available for a multi-year period based on the institution's ability to meet operational efficiency standards and document student learning gains.

As a public alternative, McGuinness (1992) has suggested the establishment of state-level Postsecondary Education Service Corporations, constitutional entities to allocate state revenues directly to institutions and to establish expectations for degree acquisition and handle student financing. Such a Corporation would be governed by public officials.

Both of these scenarios change the "givens," restructuring resources in several ways: by channeling all dollars through a single source instead of assuming that individual institutions should receive funds from a variety of sources; by providing funds on a multi-year basis instead of annually; and by eliminating the dependence of funding on enrollment or past practice, relying instead on the fulfillment of minimum standards of efficiency and effectiveness.

Restructuring Use: How Money Is Spent

Higher education's use of its resources is rarely described in positive terms; the implication is usually that colleges and universities are like unreliable teenagers who cannot manage an allowance. In fact, higher education is not an easy environment in which to sustain clear and measurable uses of funds. Chief among the characteristics that make this difficult are a professional staff who are independent and have flexible hours; decision-making that proceeds slowly by design; labor-intensive activities that are costly; and complex products that resist straightforward evaluation.

Much of the current debate over higher education finance nonetheless centers on the premise that colleges and universities have enough money, they just do not use it well. If only institutions were more accountable, faculty taught more, tenure were abolished, fewer administrators were employed -- higher education would get along just fine.

Over the past five years, many colleges and universities have made changes in their operations to address these issues. They have been engaged in budget-cutting, eliminating programs, reorganizing management structures, reducing staff, and deferring maintenance (El-Khawas, 1994). They have explored refining mission, revising faculty roles, and redefining that key structural element of campus life, the academic department.

Two points are important here. First, higher education's efforts to rethink its use of funds have been only partially successful in dealing with the most severe financial problems and constraints, which require a more sweeping reconsideration than has been undertaken to date. Second, the undesired consequences of higher education's financial structures and practices -- described above as debt-driven public subsidy, stratification of access, the undercutting of public influence, and the potential mismatch between corporate support and higher education needs -- cannot be reversed or resolved by higher education institutions acting alone. It will take a renegotiation of the relationship between the higher education enterprise and its complex "publics."

We tend to talk about higher education as one sphere of influence and the "public" as another -- separate -- sphere. This rhetoric of separate worlds must give way to an acknowledgement that higher education and the public are inextricably connected and that the key issue is not *whether* they interact, but *how*. The restructuring of higher education finance *must* include a rethinking of this relationship, its benefits and tensions.

One source of tension is the fact that the public has moved from acceptance of higher education as a generally respected and important resource to skepticism about whether the public and private price of this resource can be sustained -- no matter how valued it may be. The public is impatient with higher education's seeming reluctance to be clear about what it produces and anxious about its affordability. Higher education has been slow to accept this major shift in public attitudes -- a shift that has affected all social institutions to some extent. However unwillingly, higher education leaders now have to address public demands for accountability.

Higher education can serve itself particularly well by emphasizing *demonstrable* improvements in operational efficiency and academic effectiveness when it communicates with its various publics. Unless restructuring the use of resources produces public and documented evidence of educational attainment, demonstrated competence of graduates, and clear indications of operational efficiency, colleges and universities will have great difficulty making the case for their public and private value.

Restructuring Results: Changing Expectations -- Deliberately

The national investment in higher education has traditionally been intended to support a form of education that is *subsequent* to the high school experience and *preparatory* to a career or future intellectual endeavors. Higher education funding has also been explicitly committed to *intellectual development* as well as education for work.

An examination of the current financial structure of higher education suggests that the enterprise has already acquiesced to three major changes in these fundamental expectations: where higher education was expected to provide a post-high school experience, it now is expected to provide a replacement for high school, with major responsibility for high-school level education; where higher education was expected to provide an educational experience that was preparatory to work, it now is expected to provide education for career continuation and self-improvement throughout life; and where higher education was expected to play a major role in the development and sustaining of the nation's intellectual life (through the education of students to a life of scholarship and intellectual activity), it now is expected to provide only a limited amount of education for education's sake.

These changes in expectations were neither planned nor deliberate. They evolved from a complex array of circumstances -- changes in the viability of public school education, changes in the economy that made ongoing education essential, changes in social values that made the intellectual life less central to the collegiate experience, and changes in what students perceive to be the benefits of higher education. Indeed, this is how most public policy has developed in the past. *Must* education policy evolve in the same way in the future?

If these unintentionally changed expectations of higher education become permanent, colleges and universities will no longer function as a discrete level of graded education, but overlap with elementary and secondary education; they will no longer be primarily a career and intellectual preparatory experience, but will have expanded as career maintenance operations and constricted as sites of intellectual activity. They will no longer be clearly distinguishable from skill training centers and highly focused vocational education sites, but will routinely undertake these "postsecondary" activities.

These changes are powerful examples of how the process of restructuring expectations also restructures the use of resources in an institution. Whether they are desirable or undesirable remains to be seen. What is most important here is that they can function as a model for other -- deliberate -- restructuring alternatives.

One example of *intended* restructuring of expectations is the emerging -- and controversial -- discussion over who should go to college. Recent publications such as William Henry III's *In Defense of Elitism* (1994) stress the importance of college for those who are most likely to gain from it. Henry, for example, would reduce the percentage of high school graduates going to college from its current high of 60 percent of the graduating class to 33 percent, mainly by closing community colleges and some state universities. This is tantamount to restructuring expectations for higher education (all colleges would be expected to produce the kinds of results traditionally achieved by the more selective institutions). These restructured expectations would lead to restructured access policies and greatly reduced college enrollments -- hence reduced and redistributed costs. Higher education would be funded only for those students most likely to succeed academically.

If higher education can acquiesce in the *unintentional* restructuring of its results, higher education ought also to be able to take the lead in *deliberately* restructuring them. But

restructuring expectations of results means asking basic questions about access, purpose, and role -- and this is not easy. For higher education to assume a leadership position in restructuring expectations of the enterprise in the 1990s, it must either affirm its traditional role, backing away from recent changes in level of education and focus; make a deliberate decision to accept its unintentionally restructured role; or offer an alternative vision of higher education for the future.

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Higher education, a powerful and valued resource in the society, continues to grow, but its future prosperity is in doubt. The enterprise is challenged by diminished public investment, limits to private investment, the urgent need to finance access for our changing population, and calls to define quality clearly and consistently.

The current scenario -- of limited resources and a set of demands that is both growing and changing -- has produced some undesirable consequences for higher education: a debt-driven public policy, diminished public investment that undercuts public influence, stratification of educational opportunity, and a potential mismatch between private support and higher education's needs.

"Restructuring" -- a serious rethinking of higher education's resources, uses, and expected results -- is one way to approach ensuring the health of this important national enterprise and enhancing both its efficiency and effectiveness. This restructuring can address the way in which higher education is financed, how higher education uses the funds it receives, and what the public and policymakers expect higher education to do.

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